

AR44

# Reed Paper Ltd. Annual Report

1978







**Reed Paper Ltd.**  
**Reed Ltd.**

145 King Street West  
Toronto, Ontario M5H 1J8  
Tel.: (416) 862-5100

**J. H. Buchanan**  
Controller



REED

# The Company

Reed Paper Ltd. is a forest products company whose major operations consist of a kraft pulp and paper mill in Dryden and a newsprint mill in Quebec City. The Company employs approximately 5,000 people in Canada.

Shares of the Company are publicly held, with both Class A and Class B convertible voting preferred shares being traded on the Toronto and Montreal stock exchanges.

Approximately 87% of the outstanding voting shares of Reed Paper Ltd. are held by Reed Paper Holdings Ltd., a subsidiary of Reed International Limited, London, England. The balance is held by the public. Reed Paper Holdings owns approximately 99% of the voting common shares of Reed Paper Ltd., but none of the voting preferred shares which are publicly traded. Canadian shareholders own approximately 99% of the preferred shares.

## Head Office

Reed Paper Ltd.  
York Centre  
145 King Street West  
Toronto, Ontario  
M5H 1J8

## Registrars and Transfer Agents

Canada Permanent Trust Company,  
Le Trust Général du Canada

## Auditors

Peat, Marwick, Mitchell & Co.

## Annual Meeting

The Annual Meeting of Shareholders will be held in the Quebec Room of the Royal York Hotel, Toronto, Ontario, at 11:00 a.m. Eastern Standard Time on Friday, April 27, 1979.

## Rapport en français

Si vous désirez un exemplaire de ce rapport en français, veuillez communiquer avec le Contrôleur de la compagnie, Les Papiers Reed Ltée, 145 ouest, rue King, Toronto, Ontario M5H 1J8.

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## Report to Shareholders

The Company earned a profit from its operations in the year ended December 30, 1978, of \$4.6 million, of which \$3.5 million was attributable to its share of the earnings of its Joint Venture Companies prior to their sale. In addition, the Company incurred a net extraordinary loss of \$1.6 million. Net earnings for the year were \$3.0 million compared with a 1977 loss of \$66.2 million. Bank indebtedness declined from \$68.3 million to \$5.7 million, and short term investments increased from \$1.0 million to \$49.6 million.

The major reasons for the return to profitability were a good newsprint market, reduction in costs, improvements in productivity, and the low level of the Canadian dollar. Pre-tax earnings would have been reduced by at least \$8.0 million if the Canadian dollar had remained at 1977 levels.

### Recovery Program

During 1978, management's attention was directed towards implementing the Recovery Program that was announced in February, 1978. The objectives of this program for 1978 were to generate positive cash flows and to restore the Company to profitability. Marginal businesses were to be turned around, divested or closed, and those investments that were not generating sufficient cash were to be realized.

Early in the year, the flexible bag plants in Montreal and Toronto, both of which were unprofitable, were closed. The Reed National Drapery and the Goldcrest furniture businesses were also sold in the first quarter of 1978. The Reed Paper wallcovering manufac-

turing and distribution businesses were sold to Reed International in July, 1978, for \$41.9 million. In August, the Company announced the sale of its joint venture interest in Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. for \$60 million and completed the transaction in November. Early in 1979, the Company announced the sale of its Reed Lumber operations and of the Mississauga liner-board mill together with its associated recycled fibre operations, and the Company's three corrugated box plants located in Toronto and Montreal. These sales were completed at the beginning of March.

Management resources released as a result of these actions have been directed towards improving the performance of the Company's remaining businesses. At the same time, further reductions in costs and in the level of Corporate overhead were achieved. Corporate overhead costs are now one-half of 1977 levels. Productivity was also increased considerably. Capital expenditure was reduced to \$11 million in 1978, the lowest level since 1973. This reduced level of expenditure cannot be sustained as both the Dryden and Quebec mills need major modernization programs.

The Company is now operating profitably and generating the positive cash flows which will be essential to the implementation of the Company's modernization and environmental programs. It can now be said that the first phase of the recovery program is complete.

### Financial Highlights (thousands of dollars except per-share figures)

	1978	1977
Sales*	\$236,815	\$189,949
Earnings from continuing operations	14,309	860
Loss from discontinued operations	(9,768)	(27,509)
Earnings (loss) before extraordinary items	4,579	(19,978)
Net earnings (loss)	2,963	(66,202)
Per common share earnings (loss)		
Before extraordinary items	\$ .09	\$ (1.17)
After extraordinary items	.00	(3.53)
Capital expenditures	11,322	27,599
Working capital	\$ 139,056	\$ 65,621

\*Excludes operations to be discontinued.



The further recovery of the Company is impaired by the present inappropriate capital structure, including the long term debt outstanding of \$134.5 million, and by the problems associated with the Dryden operations. Management believes that Dryden has a viable future, provided that a responsible balance can be maintained between expenditures on modernization of the mill and those incurred for pollution control. The recent actions of the Ontario Ministry of the Environment in proposing that the Company be required to spend considerably more, and at a faster rate, on pollution control than the Company considers that Dryden can afford increases significantly the risks associated with the long term viability of Dryden. The Company, as a good corporate citizen, is making every effort to resolve this matter in a responsible way and is confident that a satisfactory conclusion will be reached.

#### Extraordinary Items

A number of extraordinary write downs and gains have resulted from the Company's review of its business operations and subsequent divestitures or closures. These extraordinary items can be divided into two groups, those where divestiture was completed in 1978 and those that were completed early in 1979.

The first group includes the sale of the Company's investment in the Joint Venture Companies as well as the investment in the wallcovering manufacturing and distribution operations. Proceeds on disposal of this group were \$101.9 million yielding a net gain of \$24.3 million.

In addition, the two flexible packaging operations in Quebec and Ontario were closed during the year and the Reed National Drapery and Goldcrest Furniture businesses were disposed of in the first quarter of 1978. The latter four businesses were identified as operations to be discontinued in 1977. Expected losses on disposition including operating losses to the date of disposal were provided for in 1977.

The second group includes the sale of the Company's interests in its corrugated and linerboard operations and certain lumber operations in March, 1979. Estimated proceeds were \$51.4 million with resultant write downs of \$21.7 million.

As a result of the foregoing disposals, and in addition to the gains and losses described, the Company has incurred or provided for costs during the realization periods estimated at \$4.5 million and has written down goodwill in the amount of \$21.7 million. The general provision of \$10.0 million established in 1977 has been applied in 1978 to operations discontinued with the result that the net extraordinary loss in 1978 as a result of discontinued operations was \$2.6 million as described in Notes 1 and 8 to the consolidated financial statements.

#### Dividends

Prior to 1978, the Directors voted to suspend cash dividends payable on the Company's outstanding common and preferred shares. The preferred shares carry cumulative dividends, which means that quarterly dividends not paid must be paid at a future date before a dividend may be declared on the common shares. At the year end, the cumulative preferred dividend arrears totalled \$4.4 million. The April, 1979, quarterly dividend on the Company's preferred shares also has not been declared.

Shareholders are again reminded that while the Company's recovery is progressing well, a substantial improvement is required in the Company's financial performance and outlook before resumption of preferred dividend payments can be considered.

#### Personnel

In January, 1979, Mr. M. Lacroix resigned as a Director in order to devote more time to other business interests, and Mr. M. H. Cochrane retired as Chairman of the Board but remains a Director. Mr. Cochrane resigned from his executive responsibilities with Reed in October, 1978, to take a senior position with a large Canadian company. In January, 1979, Mr. D. W. Morison was appointed to the Board of Directors and to the position of Chairman.

The Directors have expressed their profound sorrow at the untimely death of Mr. W. D. King in November, 1978. Mr. King was Assistant Treasurer and had been employed by the Company for 25 years.

The Directors wish to thank the employees of the Company for their loyalty and diligence throughout an uncertain and difficult year and to acknowledge their considerable contribution to the Company's recovery.

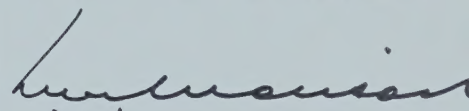
#### The Outlook

Earnings are expected to improve in 1979, due to firm markets for pulp, fine paper, and newsprint, and would be enhanced by a continued low level of the Canadian dollar.

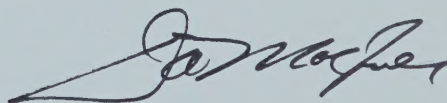
Although the first phase of the Company's recovery program has been successfully completed, many longer term problems remain to be resolved including the present inappropriate capital structure and the problems associated with the Dryden operations.

The Board is confident, however, that the Company has the financial resources and management strength to resolve the Company's remaining problems in a satisfactory manner.

On behalf of the Board of Directors,



D. W. Morison, Chairman



D. A. MacIver, President  
and Chief Executive Officer  
Toronto, Ontario  
March 20, 1979



## Review of Operations

The Company's operations benefited in 1978 from a strong newsprint market and much improved demand for both paper and pulp. Lumber prices continued at a high level while markets for most chemical products firmed considerably. The decline of the Canadian dollar improved the return on export sales and made the Company's products more competitive in domestic markets.

The performance of both the Dryden and Quebec mills improved steadily throughout 1978. Significant productivity gains were made at both mills with the Quebec mill establishing several production records. The fourth quarter performance was enhanced by improved demand and prices for market pulp coupled with improved efficiencies at the Dryden mill.

Labour contracts covering the employees at both mills were renewed for a two-year period.

### Quebec Operations

Newsprint markets tightened considerably in 1978. U.S. consumption increased by 6%, and with the U.S. West Coast strikes, publisher year end inventories were reduced to the lowest level in three years.

Newsprint sales revenues rose by 23% over 1977 reflecting the low value of the Canadian dollar, a 16% increase in shipments and a general price increase on April 1, 1978, amounting to U.S. \$15 per short ton on shipments to U.S. customers.

The newsprint machines ran efficiently and at virtual capacity in 1978. New production records were set and substantial cost savings were achieved, resulting in an excellent year for the mill. In addition, significant improvements were made in the control of pollution emissions. Although some market downtime was taken in both sulphite pulp and paperboard production during the year, demand for both these products was firm at year end. In total, sales of sulphite pulp were more than double those of 1977 as this market strengthened in the last half of the year.

Chemical sales revenues rose by 30% in 1978. Exchange rates, higher prices, and additional capacity all contributed to this growth.

On the Company's pulpwood harvesting operations near Forestville, the planned productivity improvements and cost reduction objectives were surpassed. The tug and barge transportation system performed well, recording its most active shipping season.

Two-year or longer labour agreements covering substantially all of the mill, woodlands, chemicals, and marine transport operations were concluded during the year without strike action.

Barring a severe U.S. recession in the second half, the outlook for the Quebec mill operations in 1979 is encouraging, with the newsprint machines expected to run near capacity. Newsprint prices have increased by U.S. \$25 effective February 1, 1979, to U.S. \$340 per short ton. Only one labour contract covering a segment of the Company's woods work force expires in 1979.



## Dryden Operations

Pulp markets strengthened throughout the year as producer inventories of chemical wood pulp in North American and Scandinavia fell dramatically from 2.2 million metric tons in January to less than 1 million metric tons by year end, 1978. This decline resulted from a substantial increase in pulp consumption, production curtailment, particularly in Scandinavia and from strikes at U.S. West Coast pulpmills.

Prices for fully bleached kraft pulp increased from U.S. \$300 in January, 1978, to U.S. \$340 in October, 1978. A further increase to U.S. \$358 occurred at the beginning of 1979 as the positive trend of 1978 continued.

Pulp production at the Dryden mill was 20% in excess of the 1977 levels as good progress was made in resolving the pulp mill's operational and equipment problems. The Company's capital investment program of the past two years has improved equipment reliability, reduced bottlenecks and increased the mill's sustainable production capacity. The fourth quarter production performance was excellent and is being maintained into 1979.

A two-week pulpmill shutdown was taken in July to complete major maintenance and capital improvements and to avoid inventory buildup.

Paper markets were tight during 1978, and sales were constrained by production shortfalls. In particular, No. 4 paper machine, which constitutes approximately half of the paper mill's capacity, operated unsatisfactorily and had to be shut down for two weeks for major repairs.

Canadian paper markets have been assisted by buoyant demand and by the low value of the Canadian dollar and U.S. papermill strikes, which have resulted in lower imports of U.S. paper into Canada. Paper prices improved significantly during the year, and continued to increase in the first quarter, 1979.

Harvesting operations of the Company's Dryden area timber limits were adversely affected by wet summer weather. Lumber prices and demand were high throughout 1978.

New two-year labour agreements covering the mill, woodlands and chemical operations and office personnel were concluded late in the year.

## Other Operations

The flexible packaging operations had a difficult year with markets for its products remaining depressed until the last quarter of the year. The Winnipeg plant improved its sales volume by increasing its penetration of the Eastern Canadian market. The Roseville, Minnesota, plant made significant market gains and was operating on a profitable basis by year end. The outlook for 1979 is favourable.

The pigments unit, which has been treated as a discontinued operation in the financial statements, had a small growth year. A major product mix rationalization program was commenced during the year, and the name of the business was changed to Dominion Colour.

**Price Ranges:** U.S. list prices for kraft pulp and newsprint, stated in U.S. dollars per short ton.

	1978 high low	1977 high low*	1976 high low	1975 high low	1974 high low	1973 high low	1972 high low	1971 high low	1970 high low	1969 high low
Bleached Kraft Pulp	\$340.00 300.00	\$371.95 371.95*	\$371.95 371.95	\$371.95 371.95	\$340.00 265.00	\$235.00 169.00	\$169.00 169.00	\$169.00 169.00	\$169.00 162.00	\$155.00 155.00
30 lb. Newsprint†	320.00 305.00	305.00 305.00	305.00 260.00	260.00 260.00	234.65 213.50	213.50 165.00	165.00 160.00	160.00 152.00	152.00 152.00	147.00 147.00

\*While the U.S. list price for kraft pulp did not change during the year, discounting in the marketplace was widespread, and transaction prices declined by more than 15% in the final half of 1977.

†U.S. newsprint prices before August 1973 are quoted on a 32 lb. basis.





## Auditors' Report to the Shareholders

To The Shareholders  
Reed Paper Ltd.

We have examined the consolidated balance sheet of Reed Paper Ltd. as at December 30, 1978, and the consolidated statements of operations, (deficit) retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Reed Paper Ltd. as at December 30, 1978, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Toronto, Canada  
March 9, 1979

Chartered Accountants



## Consolidated Balance Sheet

Reed Paper Ltd.

December 30, 1978      December 31, 1977

(thousands of dollars)

## ASSETS

## Current Assets:

Short term investments	\$ 49,607	\$ 976
Accounts receivable	36,541	62,402
Due from affiliated companies	1,501	6,325
Inventories (Note 2)	57,689	108,856
Prepaid expenses	3,702	7,008
Assets of discontinued operations (Note 1)	49,333	17,000

<b>Total Current Assets</b>	<b>198,373</b>	<b>202,567</b>
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<b>Fixed Assets (Note 3)</b>	<b>95,956</b>	<b>156,922</b>
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<b>Investment in Joint Venture Companies (Note 1)</b>	<b>—</b>	<b>28,456</b>
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<b>Long term receivable (Note 1)</b>	<b>10,000</b>	<b>—</b>
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<b>Deferred charges and other assets</b>	<b>4,464</b>	<b>6,170</b>
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<b>Goodwill</b>	<b>13,000</b>	<b>35,000</b>
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	<b>\$321,793</b>	<b>\$429,115</b>
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## LIABILITIES

## Current Liabilities:

Bank indebtedness	\$ 5,673	\$ 68,277
Accounts payable and accrued liabilities	45,828	53,363
Due to affiliated companies	—	656
Long term debt due within one year	7,816	14,650

<b>Total Current Liabilities</b>	<b>59,317</b>	<b>136,946</b>
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## Long Term Debt:

Notes and mortgages (Note 4)	2,047	7,673
Debentures (Note 5)	124,608	133,077

	<b>126,655</b>	<b>140,750</b>
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<b>Deferred Income Taxes</b>	<b>1,299</b>	<b>9,860</b>
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<b>General Provision Relating to Possible Dispositions (Note 1)</b>	<b>—</b>	<b>10,000</b>
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## Shareholders' Equity:

Share Capital (Note 6):		
Preferred shares	34,036	34,036
Common shares	127,390	127,390

	<b>161,426</b>	<b>161,426</b>
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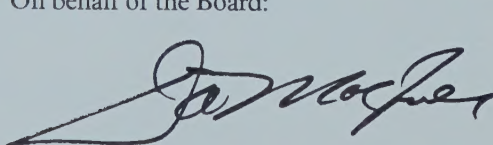
Deficit	<b>(26,904)</b>	<b>(29,867)</b>
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	<b>134,522</b>	<b>131,559</b>
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	<b>\$321,793</b>	<b>\$429,115</b>
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See accompanying summary of significant accounting policies and notes to consolidated financial statements.

On behalf of the Board:



Director



Director



# Consolidated Statement of Operations

Reed Paper Ltd.

Year Ended  
December 30, 1978      December 31, 1977

(thousands of dollars)

## Continuing Operations: (Note 1)

<b>SALES</b>	<b>Sales</b>	<b>\$236,815</b>	<b>\$189,949</b>
	<b>Operating earnings</b>	<b>\$ 24,686</b>	<b>\$ 7,611</b>
	Interest (Note 7)	12,332	8,408
	Other income	(1,955)	(1,657)
		10,377	6,751
	<b>Earnings from continuing operations</b>	<b>14,309</b>	<b>860</b>
	<b>Loss from discontinued operations (Note 1)</b>	<b>(9,768)</b>	<b>(27,509)</b>
	<b>Earnings (loss) before income tax and share of earnings of Joint Venture Companies</b>	<b>4,541</b>	<b>(26,649)</b>
	Income tax	3,421	(327)
		1,120	(26,322)
<b>EARNINGS</b>	<b>Share of earnings of Joint Venture Companies (Note 1)</b>	<b>3,459</b>	<b>6,344</b>
	<b>Earnings (loss) before extraordinary items</b>	<b>4,579</b>	<b>(19,978)</b>
	Extraordinary items (Note 8)	(1,616)	(46,224)
	<b>Net earnings (loss)</b>	<b>\$ 2,963</b>	<b>\$ (66,202)</b>
	<b>Earnings (loss) per common share after deduction of current year cumulative preferred dividends:</b>		
	<b>Before extraordinary items</b>	<b>\$ .09</b>	<b>\$(1.17)</b>
	<b>After extraordinary items</b>	<b>\$ .00</b>	<b>\$(3.53)</b>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

# Consolidated Statement of (Deficit) Retained Earnings

Year Ended  
December 30, 1978      December 31, 1977

(thousands of dollars)

<b>(Deficit) retained earnings at beginning of year</b>	<b>\$ (29,867)</b>	<b>\$ 43,686</b>
<b>Net earnings (loss)</b>	<b>2,963</b>	<b>(66,202)</b>
	<b>(26,904)</b>	<b>(22,516)</b>
Dividends declared:		
Preferred cash dividend	—	1,427
Common share dividend	—	5,924
	—	7,351
<b>Deficit at end of year</b>	<b>\$ (26,904)</b>	<b>\$ (29,867)</b>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.



# Consolidated Statement of Changes in Financial Position

Reed Paper Ltd.

		Year Ended	
		December 30, 1978	December 31, 1977
		(thousands of dollars)	
<b>Source of funds:</b>	Earnings (loss) before extraordinary items	\$ 4,579	\$ (19,978)
	Charges (credits) not affecting working capital:		
	Depreciation and depletion	12,743	13,661
	Amortization of goodwill and deferred charges	617	2,359
	Deferred income taxes	3,014	669
	Share of earnings of Joint Venture Companies (less dividends of \$3,200,000 in 1977)	(3,459)	(3,144)
	<b>Funds provided from (required for) operations</b>	<b>17,494</b>	<b>(6,433)</b>
	Discontinued operations:		
	Estimated realization from net assets	171,324	17,000
	Less working capital	82,847	15,958
		88,477	1,042
	Issue of long term debt	—	14,716
	Disposal of fixed assets	1,113	3,439
		89,590	19,197
		107,084	12,764
<b>Application of funds:</b>	Closure costs of discontinued operations	4,524	6,900
	Increase in long term receivable	10,000	—
	Fixed assets	11,322	27,599
	Reduction of long term debt	7,314	19,151
	Dividends	—	1,427
	Other items	489	(78)
		33,649	54,999
	<b>Increase (decrease) in working capital for the year</b>	<b>73,435</b>	<b>(42,235)</b>
	<b>Working capital at beginning of year</b>	<b>65,621</b>	<b>107,856</b>
	<b>Working capital at end of year</b>	<b>\$139,056</b>	<b>\$ 65,621</b>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.



# Summary of Significant Accounting Policies

Reed Paper Ltd.

December 30, 1978

## Principles of Consolidation:

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

## Foreign Currency Translations:

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect as at the balance sheet dates, non-current assets at rates in effect at the dates of acquisition, long term liabilities at rates in effect when the debt was incurred, and income and expense transactions at average rates of exchange during the year in which the transaction arose, except for depreciation and amortization which are on the same basis as the related assets. Translation gains or losses are reflected in earnings.

## Inventories:

Inventories are valued at the lower of cost and net realizable value.

## Fixed Assets:

Fixed assets are recorded at cost or, in the case of certain timber limits, at valuation determined in 1920. Grants received under government capital assistance programs are deducted from the cost of fixed assets. For major projects, interest incurred during construction is capitalized.

The costs of major additions and replacements are capitalized as fixed assets; maintenance, repairs and minor replacements are expensed in the year in which they are incurred. On retirement or disposal of fixed assets, the costs thereof and related accumulated depreciation or depletion are eliminated from the accounts and any resultant gain or loss is reflected in earnings.

## Depreciation and Depletion:

Depreciation of property, plant and equipment is provided substantially by the straight-line method on a basis estimated to amortize the cost of such assets over their productive lives as follows:

Buildings	2.5–5.0%
Manufacturing and processing equipment	6.7%
Furniture	10.0%
Automotive and transportation equipment	20.0–33.3%
Leasehold improvements	initial term of lease

Depreciation on major projects is not provided until the project is operational.

Depletion on timber limits and lands is determined on a basis related to log production on the original cost or valuation of the property.

## Investments:

Short term investments are accounted for by the cost method.

Investments in the Joint Venture Companies were accounted for by the equity method to the date of disposal on November 30, 1978.

## Deferred Charges and Other Assets:

Deferred charges include discount and costs of issue of debentures which are amortized over the term of the related debt or as the debt is retired. Other assets and investments are accounted for by the cost method.

## Goodwill:

Goodwill, which represents the excess of the cost of purchase over the fair value of net tangible assets of subsidiary companies acquired, is written down when there is evidence of a permanent impairment in value. Remaining goodwill recorded was acquired prior to 1974 and is carried at cost without amortization.

## Earnings Per Common Share:

Earnings per common share, after deduction of current year cumulative preferred dividends, are calculated on the weighted monthly average of common shares outstanding.

## Management Approval:

The financial statements have been prepared taking into account events from December 30, 1978, to March 9, 1979, the date of their approval by the senior management of the Company.



December 30, 1978

**1. Business Reorganization:**

During the year, the Company continued the review of its business operations to identify those which were unprofitable, marginal, or failed to generate sufficient cash flow. As a result, certain of its business operations have been divested or closed:

**(a) Discontinued Operations**

(i) *Discontinued operations where divestiture was completed in 1978:*

The investment in Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. ("Joint Venture Companies") was disposed of November 30, 1978.

The wallcovering manufacturing and distribution operations in Canada and the United States ("Wallcoverings") were sold to Reed International Limited effective July 1, 1978. The sale price was approved by the Directors following consideration of an independent valuation.

Four other businesses identified in 1977 as operations to be discontinued were sold or closed during 1978 ("1977 Discontinued Operations"). The operating losses and other costs incurred on sale or closure in 1978 were provided for in the 1977 accounts.

The gains and losses as a result of these actions were as follows:

	Joint Venture Companies	Wall- coverings	1977 Discontinued Operations	Total
(thousands of dollars)				

Book value of  
tangible assets:

Working capital	\$ 266	\$37,206	\$10,078	\$ 47,550
Fixed assets	-	8,097	-	8,097
Investments	31,915	127	-	32,042
	32,181	45,430	10,078	87,689
Proceeds	60,000	41,913	10,078	111,991
Gain (loss)	\$27,819	\$ (3,517)	\$ -	\$ 24,302

(ii) *Discontinued operations where divestiture was or is anticipated to be completed in 1979:*

Under an agreement which closed March 9, 1979, the Reed Lumber operations ("Reed Lumber") were sold effective September 30, 1978, to a company formed by certain employees of the Company. The sale price was approved by the Directors following consideration of an independent valuation.

The Company's corrugated box, recycling and linerboard operations ("Corrugated") were sold effective March 2, 1979.

Certain other businesses, identified in 1977 as operations to be discontinued, ("1977 Operations to be Discontinued") have not yet been divested.

The assets of these operations are disclosed separately on the balance sheet. Estimated realizable values and write downs are as follows:

	Corrugated	Reed Lumber	1977 Operations to be Discontinued	Total
(thousands of dollars)				
Book value of tangible assets (liabilities):				
Working capital	\$11,456	\$15,873	\$7,968	\$35,297
Fixed assets	36,290	14,045	-	50,335
Other assets	215	1,964	-	2,179
Long term debt	(847)	(5,934)	-	(6,781)
	47,114	25,948	7,968	81,030
Write down	15,749	5,948	-	21,697
Estimated realizable value	\$31,365	\$20,000	\$7,968	\$59,333
Assets of discontinued operations				\$49,333
8¾% debenture due from Alpa Lumber Inc. in annual instalments of \$2,000,000 from 1980 - 1984				10,000
				\$59,333

**(b) Other Adjustments**

The write down of \$21,697,000 together with the loss of \$3,517,000 on the sale of Wallcoverings resulted in a reduction of deferred taxes of \$11,075,000 for a net write down of \$14,139,000 (Note 8).

The Company has incurred or provided for costs during the realization periods estimated at \$4,524,000. As well, certain segments of goodwill in the aggregate of \$21,720,000, considered to have no continuing value, have been written off.

During 1977, the Company established a general provision of \$10,000,000 against any losses that might be incurred on the disposition of continuing unprofitable or marginally profitable operations. This provision has been applied in 1978 to operations discontinued.

**(c) Results of Discontinued Operations and Joint Venture Companies**

(i) *The results of the discontinued operations to the dates of sale or closure were as follows:*

	Year Ended December 30, 1978	December 31, 1977
(thousands of dollars)		
Sales	\$179,727	\$267,953
Operating loss	\$ (3,505)	\$ (17,960)
Allocated interest (Note 7)	(6,263)	(9,549)
Loss from discontinued operations	\$ (9,768)	\$ (27,509)

### 1. Business Reorganization (continued):

The 1978 results of those businesses identified as operations to be discontinued at December 31, 1977 were accrued for in the 1977 accounts and are excluded from the 1978 totals.

The 1977 comparative consolidated statement of operations has been reclassified to reflect the results of the operations identified to be discontinued in 1978.

(ii) The results of the Joint Venture Companies to the date of sale were as follows:

	Prince George Pulp and Paper Limited		Intercontinental Pulp Company Ltd.	
	1978	1977	1978	1977
(thousands of dollars)				
Sales	\$64,073	\$62,859	\$53,021	\$65,462
Earnings before income taxes	\$ 2,574	\$ 6,040	\$ 1,750	\$13,834
Income taxes	906	2,207	573	6,131
Earnings before undernoted item	1,668	3,833	1,177	7,703
Share of earnings of affiliated company including ex- traordinary tax recovery of \$1,362,000 in 1977	2,496	3,121	2,496	3,121
Net earnings	\$ 4,164	\$ 6,954	\$ 3,673	\$10,824
Reed Paper Ltd. proportionate share	\$ 2,082	\$ 3,477	\$ 1,377	\$ 4,059

The 1977 totals include the results of operations for the financial year ended December 29, 1977, of which Reed Paper Ltd.'s proportionate share includes \$1,192,000 accounted for as an extraordinary item. The 1978 totals include the results of operations from December 30, 1977 to November 30, 1978, the date on which the Company disposed of its investment in the Joint Venture Companies.

### 2. Inventories:

	December 30, 1978	December 31, 1977
(thousands of dollars)		
Pulpwood and logging supplies	\$ 37,153	\$ 41,917
Raw materials and supplies	10,903	13,330
Finished products and work in process	9,633	53,609
	\$ 57,689	\$108,856

### 3. Fixed Assets:

	December 30, 1978	December 31, 1977
(thousands of dollars)		
Land, buildings, machinery and equipment	\$217,953	\$294,148
Less accumulated depreciation	125,064	140,335
	92,889	153,813
Timber limits and lands	7,377	7,377
Less accumulated depletion	4,310	4,268
	3,067	3,109
	\$ 95,956	\$156,922

### 4 Notes and Mortgages:

	December 30, 1978	December 31, 1977
(thousands of dollars)		
Notes:		
11.5% payable in monthly instalments to 1980	\$1,473	\$2,016
8½% secured, payable in annual instalments to 1984, \$1,300,000 (U.S.)	1,420	1,613
Interest bearing at 1½% over Canadian prime rate, payable in quarterly instalments to 1984	—	3,857
Other	—	2,293
Mortgages:		
8¾% to 11½% maturing 1979 to 1980	—	1,460
	2,893	11,239
Less payable within one year	846	3,566
	\$2,047	\$ 7,673

Required instalments of notes and mortgages in each of the years 1979, 1980, 1981, 1982, and 1983 amount to \$846,000, \$1,079,000, \$242,000, \$242,000, and \$242,000 respectively. Notes repayable in United States dollars are carried at December 30, 1978 at the historic Canadian equivalent of \$1,420,000. If translated at the rate of exchange at December 30, 1978, the amount would be \$1,542,000.

The 8½% notes are secured by transportation equipment.

As a result of divestment of the Reed Lumber and Corrugated operations, notes and mortgages aggregating \$5,362,000 were assumed by the purchasers and have been deducted from assets of discontinued operations.



## 5. Debentures:

	Maturity	Dec. 30, 1978	Dec. 31, 1977
(thousands of dollars)			
Reed Paper Ltd.:			
6½% Sinking Fund, Series A	1985	\$8,240	\$8,661
Subordinated income debenture due to parent company bearing interest at 52% of Canadian prime rate			
	1978	—	8,072
Subsidiary Companies:			
Reed Ltd.:			
11⅞% Sinking Fund, Series A	1995	50,000	50,000
8¾% Sinking Fund, Series B	1988	4,214	4,557
11½% Sinking Fund, Series C	1996	32,920	33,960
Series D, interest at 1% over U.S. prime rate, \$25,000,000 (U.S.)			
	1984	25,350	25,350
Papeterie Reed Ltée:			
6¼% Sinking Fund, Series A	1978	—	498
5% Sinking Fund, Series B, \$2,600,000 (U.S.)	1984	2,812	3,097
6½% Sinking Fund, Series C	1986	3,853	4,244
Reed Lumber Company Ltd.:			
8¾% Sinking Fund, Series A	1993	4,189	3,947
1½% over prime rate, term bank loan	1984	—	1,694
		131,578	144,080
Less payable within one year		6,970	11,003
		\$124,608	\$133,077

Required retirements of debentures in each of the years 1979, 1980, 1981, 1982, and 1983 amount to \$6,970,000, \$5,638,000, \$10,370,000, \$13,004,000 and \$13,005,000 respectively. Debentures repayable in United States dollars are carried at December 30, 1978 at the historic Canadian equivalent of \$28,162,000. If translated at the rate of exchange at December 30, 1978, the amount would be \$32,734,000.

Reed Ltd. is required to make reasonable efforts to purchase for cancellation \$260,000 principal amount of Series C debentures in each calendar quarter to December 31, 1986 at a price not exceeding the principal amount plus accrued interest. If Reed Ltd. is unable to purchase \$1,040,000 principal amount in the four quarters of any calendar year, the purchase obligation with respect to such year is extinguished.

The holder of any Reed Ltd. Series C debenture may elect that such debenture mature on December 15, 1986, such election to be made after March 15, 1986 and prior to June 16, 1986. Reed Ltd. may increase the interest rate payable after December 15, 1986 on all Series C debentures then outstanding.

As a result of the sale of the Reed Lumber operations, the 8¾% Sinking Fund, Series A debentures will be redeemed in 1979. The principal amount and the redemption premium have been included in long term debt due within one year. The term bank loan, 1½% over prime bank rate, in the amount of \$1,419,000 at the effective date of sale has been assumed by the purchaser and has been deducted from assets of discontinued operations.

The trust indentures securing the debentures provide for a floating charge upon all the assets and contain various covenants and restrictions, including restrictions on the payment of dividends.

## 6. Share Capital:

### Authorized:

10,000,000 Class A and 10,000,000 Class B \$1.00 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of \$12.50 each.

50,000,000 Class A and 50,000,000 Class B Common Shares without nominal or par value.

The following share conversion privileges may be exercised at the option of the holder:

(a) The Class A and Class B Preferred Shares are interchangeable;

(b) The Class A and Class B Common Shares are interchangeable; and

(c) One Class A Preferred Share or one Class B Preferred Share may be exchanged for 1.0625 Class A Common Share or 1.053125 Class B Common Share.

An appropriate number of unissued shares of each class is reserved to satisfy the foregoing conversion privileges.

### Issued and Outstanding:

No shares were issued other than on conversion of previously outstanding shares. Changes in the number of shares outstanding during 1978 as a result of conversions are set out below:

	Preferred Shares		Common Shares	
	Class A	Class B	Class A	Class B
Number of shares outstanding December 31, 1977	2,626,928	274,768	1,100,533	18,462,259
Conversions between classes	49,328	(49,328)	18,424,127	(18,424,127)
Number of shares outstanding December 30, 1978	2,676,256	225,440	19,524,660	38,132

The total of 2,901,696 Preferred Shares outstanding are carried at aggregate par value of \$36,271,000 less commission on issue of \$2,235,000 or \$34,036,000.

Cumulative preferred dividend arrears at December 30, 1978 amount to \$4,353,000 (\$1.50 per Preferred Share).

The Board of Directors was previously able to provide for payment of tax deferred dividends on the Class B Preferred Shares and Class B Common Shares. Due to amendments to the Income Tax Act of Canada, the Company is not permitted to pay such dividends after 1978.

**7. Interest:**

	Year Ended	
	December 30, 1978	December 31, 1977
	(thousands of dollars)	
Interest on long term debt	\$14,988	\$ 15,030
Other interest	3,607	4,609
	18,595	19,639
Interest costs capitalized on construction in progress	—	(1,682)
Interest costs allocated to discontinued operations	(6,263)	(9,549)
	(6,263)	(11,231)
Interest allocated to continuing operations	\$ 12,332	\$ 8,408

**8. Extraordinary Items:**

	Year Ended	
	December 30, 1978	December 31, 1977
	(thousands of dollars)	
Business Reorganization:		
Discontinued Operations:		
Gain on disposal of Joint Venture Companies	\$27,819	\$ —
Write down of tangible assets to estimated realizable value (net of deferred income tax reduction of \$11,075,000 in 1978) (Note 1)	(14,139)	(5,226)
Write down of goodwill	(21,720)	(9,000)
Estimated closure costs	(4,524)	(6,900)
	(12,564)	(21,126)
General provision established in 1977 applied in 1978 to operations discontinued	10,000	(10,000)
	(2,564)	(31,126)
Continuing Operations:		
Write down of goodwill and deferred charges:		
Goodwill	—	(12,484)
Deferred charges	—	(3,806)
	—	(16,290)
Income tax reduction due to losses carried forward	948	1,192
	\$ (1,616)	\$(46,224)

**9. Income Taxes:**

At December 30, 1978, the Company has accumulated accounting losses of approximately \$42,000,000 for which no tax effect has been recorded in the accounts as follows:

	(thousands of dollars)	
Losses carried forward on a tax filing basis – expiring	1981	\$ 7,600
	1982	14,300
	1983-1985	1,100
		23,000
Amounts recorded for book purposes not yet claimed for tax filing purposes		19,000
		\$42,000

**10. Contingencies:**

(a) The actions instituted in 1970 for alleged pollution of certain lakes and rivers in Northwestern Ontario in the aggregate amount of approximately \$2,100,000 are being contested in the courts. It is not possible to estimate the ultimate liability, if any, arising out of these proceedings.

(b) During 1978, a writ of summons was issued on behalf of numerous plaintiffs claiming damages resulting from alleged pollution in Northwestern Ontario. The plaintiffs have not yet filed a statement of claim, and it is not possible to estimate the ultimate liability, if any, which may arise should the matter proceed.

(c) A subsidiary company was advised by the National Harbours Board in 1973 that it would be responsible for dredging costs of the St. Charles River estuary in the amount of approximately \$3,500,000 because of past discharge of refuse and waste. The subsidiary company does not agree that it is responsible for any part of these costs.

(d) A former senior executive has issued a writ of summons naming the Company as co-defendant in an action claiming damages for breach of contract and wrongful dismissal. Based on the facts as presented, legal counsel is of the opinion that the Company has no liability with respect to this action.

(e) As a result of the sale of the Company's interest in the Joint Venture Companies, the Company remains contingently liable under a joint and several guarantee of the first mortgage bonds of the two Joint Venture Companies should both the Joint Venture Companies and the purchaser default. At December 30, 1978, principal amounts outstanding on the first mortgage bonds aggregated \$58,000,000.



## 11. Commitments:

(a) Commitments for capital expenditures at December 30, 1978 were approximately \$3,000,000.

(b) Total expense in 1978 in respect of long term leases was approximately \$4,700,000. Future annual rentals under such lease obligations outstanding on December 30, 1978 and not provided for in the accounts will be due in each of the years 1979, 1980, 1981, 1982 and 1983 in the amounts of \$3,700,000, \$3,200,000, \$2,900,000, \$2,300,000 and \$1,100,000 respectively and \$500,000 will be due thereafter.

(c) The most recent independent actuarial reports indicate that the total unfunded liability of employees' pension plans, resulting from increases in past service benefits and other revisions, was approximately \$9,000,000 at December 30, 1978. This amount is being amortized over periods extending up to 1992 except for a United States subsidiary company for which the period extends to 2007.

(d) Under the terms of open forward exchange contracts at December 30, 1978, a subsidiary company has contracted to sell during 1979 \$12,000,000 U.S. at rates averaging \$1.16 Canadian for each \$1.00 U.S. and 4,800,000 Pounds Sterling at rates averaging \$1.84 U.S. for each Pound Sterling.

## 12. Other Information:

### *Statutory Information:*

The aggregate remuneration of directors and senior officers of the Company was as follows:	Received as Directors		Received as Officers	
	1978	1977	1978	1977
Paid by:				
Reed Paper Ltd.	\$ 2,200	\$ 2,200	\$ -	\$ -
Reed Ltd.	24,400	24,918	1,816,071	2,060,837
	<b>\$26,600</b>	<b>\$27,118</b>	<b>\$1,816,071</b>	<b>\$2,060,837</b>

The 1978 totals include remuneration of 9 directors (1977 - 12) of whom 3 (1977 - 5) are or were officers and 17 officers (1977 - 18) who are not directors. Directors who are or were officers do not receive directors' fees. The officers' remuneration totals include amounts in respect of loss of office for certain individuals who were officers of the Company during the years.



**A Ten Year  
Comparison**

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
<b>Sales and Earnings</b> (thousands of dollars)										
Sales	<b>\$416,542</b>	\$457,902	\$429,080	\$369,067	\$303,201	\$217,568	\$176,025	\$154,666	\$151,949	\$144,148
Depreciation and depletion	<b>12,743</b>	13,661	12,470	9,543	7,666	6,173	6,315	6,241	6,101	5,670
Interest on long term debt	<b>14,988</b>	15,030	8,919	3,417	2,504	2,650	2,831	2,882	3,023	2,793
Income tax	<b>3,421</b>	(327)	2,683	9,370	25,267	12,225	4,399	3,229	4,041	4,418
Earnings (loss) before extraordinary items	<b>4,579</b>	(19,978)	442	12,309	34,257	16,580	4,133	2,362	(199)	1,383
Net earnings (loss)	<b>2,963</b>	(66,202)	711	11,108	36,659	19,532	5,127	3,478	735	2,603
<b>Financial Position</b> (thousands of dollars)										
Working capital	<b>139,056</b>	65,621	107,856	102,953	46,336	45,693	41,126	35,640	32,064	33,960
Fixed assets	<b>225,330</b>	301,525	296,048	256,842	207,891	186,722	177,727	174,705	170,861	164,500
Accumulated depreciation and depletion	<b>129,374</b>	144,603	143,357	134,168	126,503	121,917	117,296	111,224	103,900	98,492
Capital expenditures	<b>11,322</b>	27,599	43,842	44,262	23,475	11,507	3,169	4,895	6,979	9,861
Long term debt	<b>126,655</b>	140,750	145,185	90,731	31,455	34,678	40,030	40,188	42,184	46,780
Shareholders' equity	<b>134,522</b>	131,559	199,161	211,685	166,430	110,852	98,212	93,593	90,442	90,165
<b>Per Common Share</b>										
Earnings (loss) before extraordinary items	<b>.09</b>	(1.17)	(.12)	.61	2.33	1.15	.29	.16	(.01)	.09
Net earnings (loss)	<b>.00</b>	(3.53)	(.11)	.54	2.50	1.35	.35	.24	.05	.18
Cash dividends	<b>—</b>	—	.53	.71	.49	—	—	—	—	—
Book value	<b>4.91</b>	4.91	8.44	9.09	9.66	7.66	6.78	6.46	6.25	6.23



**Stock Trading Range, Convertible Preferred Shares**

	Toronto Stock Exchange			Montreal Stock Exchange		
	High	Low	Volume (thousands)	High	Low	Volume (thousands)
<b>1977</b>						
1st Quarter	\$10¾	\$9⅞	174	\$10¾	\$9⅞	40
2nd Quarter	11	8¾	419	10¾	9	16
3rd Quarter	10	6¼	250	10	6¾	9
4th Quarter	6⅞	5	309	6½	5⅞	9
<b>1978</b>						
1st Quarter	7	6	163	6⅞	6	19
2nd Quarter	8¾	7¼	223	8¾	7	13
3rd Quarter	10	7⅞	396	9⅞	7⅞	10
4th Quarter	9⅞	8⅞	357	9¼	8½	10

**Sales by Market** (thousands of dollars)

	Canada		U.S.		U.K.		Other	
	1978	1977	1978	1977	1978	1977	1978	1977
Newsprint	\$ 21,357	\$ 16,046	\$ 54,545	\$ 40,897	\$ 13,139	\$ 18,201	\$ 20,192	\$ 13,328
Pulp	6,969	4,993	47,399	35,370	1,048	1,220	4,557	2,917
Decorative Products	20,575	60,995	26,984	46,975	—	—	141	414
Paper and Paperboard	30,729	28,107	7,132	5,879	—	—	—	—
Corrugated Containers	35,086	34,646	3,129	554	—	—	—	—
Bags and other Specialty Products	10,839	22,384	3,298	1,168	—	—	—	7
Lumber and Building Products	87,325	93,782	4,569	2,499	—	—	—	58
Fibre for Recycling	4,716	3,087	3,655	2,739	—	13	—	—
Chemicals and Sundry	5,035	12,558	2,884	6,384	—	513	1,239	2,168
Totals	\$222,631	\$276,598	\$153,595	\$142,465	\$ 14,187	\$ 19,947	\$ 26,129	\$ 18,892

**Sales by Product** (thousands of dollars)

	1978	1977
Newsprint	<b>\$109,233</b>	\$ 88,472
Pulp	<b>59,973</b>	44,500
Decorative Products	<b>47,700</b>	108,384
Paper and Paperboard	<b>37,861</b>	33,986
Corrugated Containers	<b>38,215</b>	35,200
Bags and other Specialty Products	<b>14,137</b>	23,559
Lumber and Building Products	<b>91,894</b>	96,339
Fibre for Recycling	<b>8,371</b>	5,839
Chemicals and Sundry	<b>9,158</b>	21,623
Totals	<b>\$416,542</b>	\$457,902

**Employees of Reed Paper Ltd. and  
Subsidiary Companies\***

	1978	1977
Quebec	<b>2,199</b>	2,038
Ontario	<b>2,516</b>	4,373
British Columbia	<b>2</b>	210
Other Provinces	<b>192</b>	319
United States of America	<b>73</b>	499
Totals	<b>4,982</b>	7,439

\*Active employees as at fiscal year-ends.

**Production Highlights**

	1978	1977
Newsprint (tons)	<b>346,257</b>	316,774
Sulphite pulp (tons)	<b>40,442</b>	13,427
Paperboard (tons)	<b>29,376</b>	25,245
Bleached and unbleached kraft pulp (tons)	<b>133,499</b>	110,200
Kraft and fine papers (tons)	<b>63,497</b>	63,020
Liner and corrugating medium (tons)	<b>68,484</b>	56,943
Flexible packaging (tons)	<b>25,408</b>	34,062
Corrugated packaging (tons)	<b>64,325</b>	65,948
Chlor-alkalis, turpentine (tons)	<b>29,074</b>	27,047
Lignosulphonate chemicals (tons)	<b>49,716</b>	45,182
Lumber – board feet (000's)	<b>37,450</b>	34,471



## Directors

Michael H. Cochrane,  
Vice-President,  
Planning & Business Development,  
Massey-Ferguson Limited

J. David Cormie\*†°  
Chairman of the  
Remuneration Committee,  
Reed Paper Ltd.; and  
Finance Director,  
Reed International Limited

Alexander A. Jarratt,  
Chairman and Chief Executive,  
Reed International Limited

Donald A. MacIver\*°  
President and Chief  
Executive Officer,  
Reed Paper Ltd.

D. William Morison\*°  
Chairman of the Board,  
Chairman of the  
Executive Committee,  
Reed Paper Ltd.,  
Chairman, RoyMark  
Financial Services Limited

John A. Mullin, Q.C.,†°  
Chairman of the  
Audit Committee,  
Reed Paper Ltd.;  
Partner,  
Fraser & Beatty,  
Barristers & Solicitors

J. A. Ross, F.C.A.,  
Director,  
Reed Paper Ltd.

Ernest J. Spence,†°  
Consultant

\*Member, Executive Committee

†Member, Audit Committee

°Member, Remuneration Committee

## Officers

Chairman of the Board,  
D. William Morison

Vice-Chairman of the Board,  
Alexander A. Jarratt

President and  
Chief Executive Officer,  
Donald A. MacIver

Senior Vice-President,  
Kenneth D. Greaves

Vice-President, Finance,  
Anthony L. Anderson

Vice-President, Technical,  
Raoul C. Buser

Vice-President,  
Industrial Relations,  
Dean O. Gray

Secretary-Treasurer,  
Brian W. Jamieson

Director of Taxation,  
Keith O. Fowler

Controller,  
John H. Buchanan

Assistant Treasurer,  
Lawrence A. Mackwood

Assistant Secretary,  
B. H. Louise FitzRoy

Directors and Officers  
as of March 20, 1979







# Reed Paper Ltd. AR44

## Notice of the Annual Meeting of Shareholders April 27, 1979

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of Reed Paper Ltd. (Reed) will be held in the Quebec Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Friday, the 27th day of April, 1979 at the hour of 11:00 o'clock in the forenoon (Eastern Standard Time) for the following purposes:

1. To receive and consider the consolidated financial statements of Reed as at December 30, 1978 together with the report of the auditors thereon.
2. To elect directors.
3. To appoint auditors and to authorize the directors to fix their remuneration.
4. To transact such further or other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto the 6th day of April, 1979.

By Order of the Board,  
Brian W. Jamieson  
Secretary-Treasurer

Shareholders who are unable to be present personally at the meeting are requested to date, sign and return, in the envelope provided for that purpose, the accompanying form of proxy for use at the meeting.





# Management Proxy Circular

## Management Solicitation

**This management proxy circular is furnished in connection with the solicitation of proxies by the management of Reed Paper Ltd. (Reed) for use at the annual meeting of the shareholders of Reed to be held on Friday, April 27, 1979 at 11:00 o'clock in the forenoon (Eastern Standard Time) in the Quebec Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, for the purposes set out in the notice of meeting accompanying this circular. The cost of the solicitation by the management for the meeting will be borne by Reed.**

**The form of proxy forwarded to the shareholders for use at the annual meeting confers discretionary authority upon the proxy nominees with respect to amendments or variations to matters identified in the notice of meeting and other matters which may properly come before the meeting and affords the shareholder an opportunity to specify that the shares registered in his or her name shall be voted or withheld from voting in the election of directors and the appointment of auditors.**

**In respect of proxies in which the shareholders have failed to specify either to vote or withhold from voting in the election of directors and the appointment of auditors as provided for in the form of proxy, the shares represented by the proxies in favour of management nominees will be voted in favour of the election of the persons nominated as directors and the appointment of the auditors referred to in this management proxy circular.**

Management knows of no matters to come before the meeting other than the matters referred to in the notice of meeting. However, if any other matters which are not now known to management should properly come before the meeting, the shares represented by the proxies in favour of management nominees will be voted on such matters in accordance with the best judgement of the proxy nominees.

Proxies given by shareholders for use at the annual meeting may be revoked at any time prior to their use. In addition to revocation in any other manner permitted by law, a shareholder giving a proxy may revoke the proxy by instrument in writing executed by the shareholder or by his or her attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by its authorized officer or attorney, and deposited either

at the head office of Reed at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof at which the proxy is to be used or with the chairman of the meeting on the day of the meeting or any adjournment thereof.

## Voting Shares and Principal Holders Thereof

The authorized capital of Reed consists of 10,000,000 Class A \$1.00 cumulative redeemable convertible voting preferred shares of the par value of \$12.50 each, 10,000,000 Class B cumulative redeemable convertible voting preferred shares of the par value of \$12.50 each, 50,000,000 Class A common shares and 50,000,000 Class B common shares. As of March 20, 1979 2,699,579 Class A preferred shares, 202,117 Class B preferred shares, 19,529,328 Class A common shares and 33,464 Class B common shares were outstanding as fully paid and non assessable. Scrip certificates are outstanding which, if converted to full shares, would equal 52.031250 shares. Holders of each of the outstanding Class A and Class B preferred shares and Class A and Class B common shares of record at the time of the annual meeting will be entitled to one vote per share at such meeting.

As of March 20, 1979, Reed Paper Holdings Ltd. beneficially owned directly or indirectly, 19,505,090 common shares, which represent 99.7% of the outstanding common shares of Reed, and carry 86.8% of the voting rights attached to all outstanding preferred shares and common shares of Reed. To the knowledge of the directors and senior officers of Reed, no other persons beneficially own or exercise control or direction over more than 10% of the outstanding shares of Reed at the date hereof.

## Appointment of Auditors

Management has been informed that Reed Paper Holdings Ltd. intends to nominate Messrs. Price Waterhouse & Co., the auditors of Reed International Limited, for appointment at the annual meeting as auditors of Reed to hold office until the next annual meeting of shareholders. Accordingly, Price Waterhouse & Co. will be nominated in place of Messrs. Peat, Marwick, Mitchell & Co., who have been the auditors of Reed since 1969.

## Election of Directors

The following are the names of the persons proposed to be nominated by management for election as directors of Reed to serve until the next annual meeting of the shareholders or until their successors are elected or appointed:

Mr. Michael H. Cochrane, Mr. J. David Cormie, Mr. Alexander A. Jarratt, Mr. Donald A. MacIver, Mr. D. William Morison, Mr. John A. Mullin, Q.C., Mr. John A. Ross and Dr. Ernest J. Spence.



## Information Concerning Nominees as Directors

Name and Office held in Reed	Present principal occupation	Offices held in significant affiliates	Director of Reed since	Approximate number of shares of Reed beneficially owned directly or indirectly or over which control is exercised as of March 20, 1979.
Michael H. Cochrane Director	Vice-President, Planning and Business Development, Massey-Ferguson Limited	Director of Reed Ltd.	February of 1977	1,666 Class B Common
J. David Cormie Director	Finance Director of Reed International Limited	Director of Reed Ltd. and Finance Director of Reed International Limited	May of 1976	Nil*
Alexander A. Jarratt Vice-Chairman of the Board of Directors	Chairman and Chief Executive of Reed International Limited	Vice-Chairman of the Board of Directors of Reed Ltd. and Chairman of the Board of Directors and Chief Executive of Reed International Limited	March of 1975	Nil**
Donald A. MacIver President and Chief Executive Officer and Director	President and Chief Executive Officer of Reed	President and Chief Executive Officer and Director of Reed Ltd.	October of 1976	15,796 Class B Common
D. William Morison Chairman of the Board of Directors	Chairman, RoyMark Financial Services Limited Prior to November, 1976 Mr. Morison was Vice-President-Ontario, of a Canadian Chartered Bank	Chairman of the Board of Directors of Reed Ltd.	January of 1979	One Class A Common
John A. Mullin, Q.C. Director	Partner, Fraser & Beatty	Director of Reed Ltd.	February of 1972	200 Class A Preferred 70 Class A Common
John A. Ross Director	Director of Reed	Director of Reed Ltd.	June of 1973	2,000 Class B Preferred
Ernest J. Spence Director	Consultant	Director of Reed Ltd.	April of 1961	One Class A Common

\*In addition to the foregoing, Mr. Cormie is the non-beneficial holder of 888 shares of Reed International Limited.

\*\*In addition to the foregoing, Mr. Jarratt holds 1,200 ordinary shares of Reed International Limited.



## Directors' and Officers' Remuneration from Reed and its Subsidiaries during 1978

	NATURE OF REMUNERATION EARNED					
	Directors' fees	Salaries (Note 1)	Bonuses	Non-accountable expense allowances	Other (Note 2)	Total
REMUNERATION OF DIRECTORS						
Body Corporate incurring the expense (3 directors included):						
Reed Paper Ltd.	\$ 2,200	n/a	n/a	n/a	n/a	\$ 2,200
Reed Ltd.	\$24,400	n/a	n/a	n/a	n/a	\$ 24,400
REMUNERATION OF OFFICERS						
Body Corporate incurring the expense (20 officers included):						
Reed Paper Ltd.	n/a	n/a	n/a	n/a	n/a	n/a
Reed Ltd.	n/a	\$1,744,914	n/a	n/a	\$71,157	\$1,816,071
TOTALS	\$26,600	\$1,744,914	n/a	n/a	\$71,157	\$1,842,671

Note 1. Includes amounts paid to all officers including those whose remuneration did not exceed \$40,000 during the year and also includes amounts in respect of loss of office for certain individuals who were officers of the Company during the year.

Note 2. Includes fringe benefits for automobiles; health, group and other insurance.

### Remuneration of Management and Others

The estimated aggregate cost to Reed and its subsidiaries in the last completed financial year of Reed of all benefits proposed to be paid under any pension or retirement plan of Reed in the event of retirement at normal retirement age to the directors and officers of Reed as a group is \$19,860. Reed has entered into contracts for the service of certain senior officers under which the aggregate of all future remuneration payments proposed to be made to such senior officers as a group will not exceed \$1,930,000.

Under an Executive Incentive Plan instituted in 1973, a subsidiary of Reed made interest free loans due over a period of seven years to trustees for the benefit of key officers and employees to enable them to purchase common shares of the subsidiary at market value at the date of purchase. Such shares have since been exchanged for preferred shares of Reed.

In addition, interest free loans to key officers and employees were made to assist them in home financing. Such practice continues through another Reed subsidiary.

The detail of the loans, including the largest aggregate amount of indebtedness outstanding during the financial year ended December 30, 1978 and the amount of indebtedness as of March 20, 1979, are as follows:

Name	Largest Amount of Indebtedness during 1978	Indebtedness as of March 20, 1979
<b>Home Purchase Loans</b>		
A.L. Anderson	\$ 50,000	\$ 50,000
J.H. Buchanan	35,000	35,000
R.C. Buser	75,000	75,000
M.H. Cochrane	100,000	100,000
K.O. Fowler	25,000	25,000
D.O. Gray	40,000	40,000
K.D. Greaves	75,000	75,000
D.A. MacIver	100,000	100,000
J.A. Ross	50,000	50,000
<b>Stock Purchase Loans</b>		
R.C. Buser	\$ 25,885	\$ 25,885
D.O. Gray	9,506	9,506
K.D. Greaves	24,617	24,617
J.A. Ross	6,335	—

### Dispositions of Wallcovering and Lumber Businesses

Effective July 1, 1978, Reed completed the sale of its wallcovering businesses in Canada and the United States to Reed Paper Holdings Ltd. for an aggregate purchase price of \$41,913,000. The Reed Paper Holdings Ltd. interest in Reed is shown under the heading "Voting Shares and Principal Holders Thereof."

On March 9, 1979 Reed, through its subsidiary Reed Lumber Company Ltd. completed the sale of the property, assets and undertaking of Reed Lumber Company Ltd. to Alpa Lumber Inc., a company formed by certain employees of Reed, for an aggregate purchase price of \$20,000,000 and the assumption

of certain liabilities. Mr. D.A. MacIver, President of Reed, is among the group of investors and has a 10% interest in the business being acquired.

### Directors' Approval

The contents and the sending to the shareholders of this management proxy circular were approved by resolution of the board of directors of Reed.



D. William Morison  
Chairman of the Board



D.A. MacIver  
President and Chief  
Executive Officer

Dated this 20th day of March, 1979.



Rémunération versée aux administrateurs et membres de la direction par Reed et ses filiales en 1978

NATURE DE LA RÉMUNÉRATION GAGNÉE				
Jetons de présence des administrateurs	Salaires (note 1)	Bonifications	Allocations de dépenses non comptabilisées	Autre (note 2)
				Total

RÉMUNÉRATION DES ADMINISTRATEURS

(Comprend 3 administrateurs)

Personne morale engageant la dépense

Reed Ltée

RÉMUNÉRATION DES MEMBRES DE LA DIRECTION

(Comprend 20 membres de la direction)

Les Papiers Reed Ltée

Reed Ltée

TOTAUX	\$26,600	\$1,744,914	néant	néant	\$71,157	\$1,842,671
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Note 1. Comprend des montants versés à tous les membres de la direction y compris ceux dont la rémunération n'excédait pas \$40,000 au cours de l'exercice et comprend aussi des montants relatifs à des pertes d'emploi de certaines personnes qui furent membres de la direction de la compagnie au cours de l'exercice.

Note 2. Comprend des avantages sociaux relatifs aux automobiles, assurance-maladie, assurance collective et autre.

Rémunération des membres de la direction et autres personnes

Pour le dernier exercice complet de Reed et de ses filiales, on estime à \$19,860 le coût global de toutes les prestations devant être payées à l'ensemble des administrateurs et des dirigeants de Reed, au chapitre de tout régime de pension ou de retraite de Reed, en cas de retraite à l'âge normal. Reed a conclu des contrats visant les services de certains hauts dirigeants, contrats en vertu desquels le montant global des versements que l'on envisage faire à ces hauts dirigeants dans leur ensemble n'excèdera pas \$1,930,000.

En vertu d'un régime de primes d'encouragement destiné aux cadres, créé en 1973, une filiale de Reed a consenti des prêts sans intérêt à des fiduciaires, échéant sur une période de sept ans, au profit des dirigeants et employés dont les services revêtent une importance particulière, dans le but de leur permettre d'acheter des actions ordinaires de cette filiale au prix du marché à la date de l'achat. Ces actions ont depuis été échangées contre des actions privilégiées de Reed.

En outre, des prêts sans intérêt ont été consentis à des dirigeants et employés dont les services revêtent une importance particulière, afin d'aider au financement de leur maison. Cette pratique continue par l'intermédiaire d'une autre filiale de Reed.

Les détails de ces prêts, y compris le montant global le plus élevé de la dette en cours durant l'exercice terminé le 30 décembre 1978, ainsi que le montant de la dette au 20 mars 1979, sont indiqués ci-dessous:

Nom	Prêts pour l'acquisition d'une maison		Prêts pour l'achat d'actions	
	Montant de la dette la plus élevée en 1978	20 mars 1979	\$	\$
A.L. Anderson	50,000	50,000	25,885	25,885
J.H. Buchanan	35,000	35,000	9,506	9,506
R.C. Buser	75,000	75,000	24,617	24,617
M.H. Cochran	100,000	100,000	—	—
K.O. Fowler	25,000	25,000	—	—
D.O. Gray	40,000	40,000	—	—
K.D. Greaves	75,000	75,000	—	—
D.A. MacIver	100,000	100,000	—	—
J.A. Ross	50,000	50,000	—	—

Aliénation des entreprises de revêtements muraux et de bois d'oeuvre

En date du 1er juillet 1978, Reed avait conclu la vente de ses entreprises de revêtement muraux aux Canada et aux Etats-Unis à Reed Paper Holdings Ltd. pour un montant global de \$41,913,000. L'intérêt de Reed Paper Holdings Ltd. dans Reed est indiqué sous la rubrique "Actions avec droit de vote et principaux détenteurs desdites actions." Le 9 mars 1979, par l'intermédiaire de sa filiale Reed Lumber Company Ltd., Reed a effectué la vente de l'actif, des biens commerciaux et de l'exploitation de Reed Lumber Company Ltd., à Alpa Lumber Inc., société formée par certains employés de Reed pour un montant global de \$20,000,000, à quoi s'est

ajoutée la prise en charge de certaines dettes. M. D.A. MacIver, président de Reed, figure parmi le groupe des acquéreurs, sa part d'intérêt se chiffrant à 10%.

Approbation des administrateurs

La direction a appris de Reed Paper Holdings Ltd. que ceux-ci ont l'intention de nommer Price Waterhouse & Cie, les vérificateurs de Reed International Limited, pour entrer en fonction à l'assemblée annuelle à titre de vérificateurs de Reed et demeurer en fonction jusqu'à la prochaine assemblée annuelle des actionnaires. En conséquence Price Waterhouse & Cie seront mis en nomination à la place de Peat, Marwick, Mitchell & Cie, vérificateurs de Reed depuis 1969.

Le président du conseil d'administration

D. William Morison

Le président et directeur général

D.A. MacIver

Fait ce 20<sup>e</sup> jour de mars 1979.



# Renseignements relatifs aux candidats aux postes d'administrateurs

Nom et poste occupé chez Reed	Occupation principale actuelle	Postes occupés chez les principales affiliées.	Administrateur de Reed depuis d'actions de Reed	Nombre approximatif détenues en propriété effective, directement ou indirectement, sur lesquelles il est exercé un contrôle au 20 mars 1979
Michael H. Cochrane Administrateur	Vice-président, planification et expansion commerciale, Massey-Ferguson Ltée.	Administrateur de Reed Ltée	février 1977	1,666 actions ordinaires catégorie B
J. David Cormie Administrateur	Directeur financier de Reed International Limited	Administrateur de Reed et directeur financier de Reed International Limited	mai 1976	Néant*
Alexander A. Jarratt Vice-président du Conseil d'administration	Président du Conseil et directeur général de Reed International Limited	Vice-président du Conseil d'administration de Reed Ltée, président du Conseil d'administration et directeur général de Reed International Limited	mars 1975	Néant**
Donald A. MacIver Président, directeur général et administrateur	Président et directeur général de Reed	Président, directeur général et administrateur de Reed Ltée	octobre 1976	15,796 actions ordinaires catégorie B
D. William Morison Président du Conseil d'administration	Président, Les Services Financiers RoyMark Limitée M. Morison occupait antérieurement à novembre 1976 le poste de Vice-président-Ontario, d'une banque à charte canadienne	Président du Conseil d'administration de Reed Ltée	janvier 1979	Une action ordinaire catégorie A
John A. Mullin, c.r. Administrateur	Associé de Fraser & Beatty	Administrateur de Reed Ltée	février 1972	200 actions privilégiées catégorie A, 70 actions ordinaires catégorie A
John A. Ross Administrateur	Administrateur de Reed	Administrateur de Reed Ltée	juin 1973	2,000 actions privilégiées, catégorie B
Ernest J. Spence Administrateur	Conseiller	Administrateur de Reed Ltée	avril 1961	Une action ordinaire catégorie A

\* En plus de ce qui précède, M. Cormie est détenteur n'a pas la propriété effective de 888 actions de Reed International Limited.  
 \*\* En plus de ce qui précède, M. Jarratt est détenteur de 1,200 actions ordinaires de Reed International Limited.



# Circulaire de procuration de la direction

Sollicitation par la direction

La présente circulaire de procuration de la direction est fournie dans le cadre de la sollicitation par la direction de Les Papiers Reed Ltée (Reed) de procurations devant être utilisées à l'assemblée annuelle des actionnaires de Reed devant être tenue le vendredi 27 avril 1979 à onze heures (heure normale de l'Est) au Salon Québec de l'Hôtel Royal York, 100 ouest, rue Front, Toronto, Ontario, aux fins indiquées à l'avis de convocation de ladite assemblée annexé à la présente circulaire. Reed assumera les frais engagés par la direction pour la sollicitation des procurations destinées à l'assemblée.

Le formulaire de procuration expédié aux actionnaires et qui sera utilisé lors de l'assemblée générale annuelle confère aux représentants un pouvoir discrétionnaire en ce qui concerne les modifications ou changements relatifs aux questions figurant dans l'avis de convocation et à toute autre question dont l'assemblée peut être dûment saisie. Le formulaire de procuration permet à l'actionnaire de préciser si les droits de vote afférents aux actions immatriculées à son nom doivent ou non être exercés lors de l'élection des administrateurs et de la nomination des vérificateurs.

En ce qui a trait aux procurations dans lesquelles les actionnaires n'auront pas précisé s'il faut voter ou s'abstenir de voter lors de l'élection des administrateurs et de la nomination des vérificateurs, tel qu'il est prévu dans le formulaire de procuration, les droits de vote afférents aux actions faisant l'objet des procurations accordées aux représentants de la direction seront exercés en faveur de l'élection des personnes mises en candidature aux postes d'administrateurs et de la nomination des vérificateurs nommés dans la présente circulaire de procuration de la direction.

La direction n'a connaissance d'aucune question dont l'assemblée pourrait être saisie, hormis les sujets figurant à l'avis de convocation. Toutefois si l'assemblée est dûment saisie d'autres questions dont la direction n'est pas actuellement au courant, les droits afférents aux actions faisant l'objet des procurations accordées en faveur des représentants de la direction seront exercés par lesdits représentants, au mieux de leur jugement.

Les procurations données par les actionnaires aux fins de l'assemblée générale annuelle peuvent être révoquées à tout moment avant leur exercice. Outre tout autre mode de révocation permis par la loi, un actionnaire qui donne une procuration peut la révoquer au moyen d'un acte écrit signé par lui, ou par son procureur autorisé par écrit ou, si l'actionnaire est une société, sous son sceau corporatif ou par son dirigeant ou procureur autorisé, et déposé soit au siège social de Reed, à n'importe quel moment jusqu'au dernier jour ouvrable, inclusivement, qui précède le jour de l'assemblée ou de toute reprise de ladite assemblée à laquelle la procuration est destinée, soit au président de l'assemblée, le jour de l'assemblée ou de toute reprise de ladite assemblée.

**Actions avec droit de vote et principaux détenteurs desdites actions**

Le capital autorisé de Reed consiste en 10,000,000 d'actions privilégiées catégorie A, à dividende cumulatif de \$1.00, rachetables, convertibles avec droit de vote, d'une valeur au pair de \$12.50 chacune, et 10,000,000 d'actions privilégiées catégorie B, à dividende cumulatif, rachetables, convertibles avec droit de vote, d'une valeur au pair de \$12.50 chacune, 50,000,000 d'actions ordinaires catégorie A et 50,000,000 d'actions ordinaires catégorie B. Au 20 mars 1979 2,699,579 d'actions privilégiées catégorie A et 202,117 d'actions privilégiées catégorie B, 19,529,328 d'actions ordinaires catégorie A et 33,464 d'actions ordinaires catégorie B étaient en circulation comme entièrement libérées et non susceptibles d'appels subséquents. Des certificats d'actions provisoires sont en circulation, lesquels, s'ils étaient convertis en actions entières, représenteraient 52,031,250 actions. Les détenteurs de chacune des actions privilégiées catégorie A et catégorie B et de chacune des actions ordinaires catégorie A et catégorie B, en circulation, inscrits à la date de l'assemblée générale annuelle, auront droit à un vote par action lors de cette assemblée. Au 20 mars 1979, Reed Paper Holdings Ltd., détenait en propriété effective, directement ou indirectement, 19,505,090 actions ordinaires, ces actions représentant 99.7% des actions ordinaires de Reed en circulation et comportant 86.8% des droits de vote afférents à toutes les actions privilégiées et ordinaires de Reed, en

circulation. À la connaissance des administrateurs et des hauts dirigeants de Reed, aucune autre personne n'avait la propriété effective ni exerçait de contrôle ou de direction sur plus de 10% des actions de Reed en circulation à la date des présentes.

**Nomination des vérificateurs**

La direction a appris que Reed Paper Holdings Ltd. a l'intention de nommer Price Waterhouse & Cie, les vérificateurs de Reed International Limited, pour entrer en fonction à l'assemblée annuelle à titre de vérificateurs de Reed et demeurer en fonction jusqu'à la prochaine assemblée annuelle des actionnaires. En conséquence Price Waterhouse & Cie seront mis en nomination à la place de Peat, Marwick, Mitchell & Cie, vérificateurs de Reed depuis 1969.

**Election des administrateurs**

Ce qui suit constitue la liste des personnes dont la direction propose la mise en candidature aux postes d'administrateurs de Reed, leur mandat devant se terminer lors de la prochaine assemblée annuelle des actionnaires ou de la nomination ou de l'élection de leurs successeurs:

M. Michael H. Cochrane, M.J. David  
Cormie, M. Alexander A. Jarratt,  
M. Donald A. MacIver, M.D. William  
Morison, M. John A. Mullin, c.r., M. John  
A. Ross et Dr Ernest J. Spence.



# Les papiers Reed Ltée

## Avis de convocation de l'assemblée annuelle des actionnaires le 27 avril 1979

AVIS EST DONNÉ PAR LES PRÉSENTES  
que l'assemblée annuelle des  
actionnaires de Les Papiers Reed Ltée  
(Reed) sera tenue au Salon Québec de  
l'Hôtel Royal York, 100 ouest, rue Front  
à Toronto, Ontario, le vendredi 27 avril  
1979 à onze heures (heure normale de  
l'est) aux fins suivantes:

1. Recevoir les états financiers  
consolidés de Reed au 30 décembre  
1978, ainsi que le rapport des  
vérificateurs sur ces états, et en prendre  
connaissance.
2. Procéder à l'élection des  
administrateurs.
3. Nommer les vérificateurs et  
autoriser les administrateurs à fixer la  
rémunération de ces vérificateurs.
4. Traiter de toute autre question  
pouvant être dûment présentée à  
l'assemblée ou à toute reprise de ladite  
assemblée.

FAIT à Toronto le 6e jour d'avril 1979.

Par ordre du conseil  
Le secrétaire-trésorier  
Brian W. Jamieson

Les actionnaires qui ne peuvent  
assister en personne à l'assemblée sont  
priés de signer et de dater le formulaire  
de procuration ci-joint et de le retourner  
pour les fins de l'assemblée dans  
l'enveloppe fournie à cet effet.

